

# Report of the auditor-general to the Northern Cape Provincial Legislature and the council on John Taolo Gaetsewe District Municipality

## Report on the audit of the financial statements

### Opinion

1. I have audited the financial statements of the John Taolo Gaetsewe District Municipality set out on pages 7 to 90, which comprise the statement of financial position as at 30 June 2017, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the John Taolo Gaetsewe District Municipality as at 30 June 2017, and its financial performance and cash flows for the year then ended in accordance with Standards of Generally Recognised Accounting Practice (Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2016 (Act No. 3 of 2016) (DoRA).

### Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of my report.
4. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) together with the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### Emphasis of matter

6. I draw attention to the matter below. My opinion is not modified in respect of this matter.

### Restatement of corresponding figures

7. As disclosed in note 40 to the financial statements, the corresponding figures for 30 June 2016 have been restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2017.

## **Other matters**

8. I draw attention to the matters below. My opinion is not modified in respect of these matters.

## **Unaudited disclosure notes**

9. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

## **Unaudited supplementary schedules**

10. The supplementary information set out on pages 91 to 99 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

## **Responsibilities of accounting officer for the financial statements**

11. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with Standards of GRAP and the requirements of the MFMA and DoRA and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
12. In preparing the financial statements, the accounting officer is responsible for assessing the John Taolo Gaetsewe District Municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the intention is either to liquidate the municipality or cease operations, or there is no realistic alternative but to do so.

## **Auditor-general's responsibilities for the audit of the financial statements**

13. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
14. A further description of my responsibilities for the audit of the financial statements is included in the annexure to the auditor's report.

<b>Report on the audit of the annual performance report</b>
---

## **Introduction and scope**

15. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material

findings on the reported performance information against predetermined objectives for selected key performance areas presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.

16. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
17. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected key performance areas presented in the annual performance report of the municipality for the year ended 30 June 2017:

<b>Key performance areas</b>	<b>Pages in the annual performance report</b>
Key performance area 2: Basic services delivery and infrastructure development	20 – 32

18. I performed procedures to determine whether the reported performance information was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
19. I did not identify any material findings on the usefulness and reliability of the reported performance information for the following key performance areas:
- Key performance area 2: Basic service delivery and infrastructure development

## **Other matters**

20. I draw attention to the matters below.

## **Achievement of planned targets**

21. Refer to the annual performance report on pages 11 to 53 for information on the achievement of planned targets for the year.

## **Adjustment of material misstatements**

22. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of Basic Services Delivery and Infrastructure Development. As management subsequently

corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information

## **Report on audit of compliance with legislation**

### **Introduction and scope**

23. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
24. The material findings on compliance with specific matters in key legislations are as follows:

### **Budgets**

25. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R3 259 394 as disclosed in note 35 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed unauthorised expenditure was caused by overspending on votes that have been budgeted for.
26. Unforeseen and unavoidable expenditure incurred by the municipality was not approved by the mayor as required by section 29(1) of the MFMA.

### **Annual financial statements, performance reports and annual reports**

27. The financial statements submitted for auditing were not prepared, in all material respects, in accordance with the requirements of section 122 of the MFMA. Material misstatements of irregular expenditure, unauthorised expenditure and cash flow statement identified by the auditors in the submitted financial statement were subsequently corrected and the supporting records were subsequently provided, resulting in the financial statements receiving an unqualified audit opinion.

### **Expenditure Management**

28. Money owed by the municipality was not always paid within 30 days as required by section 65(2)(e) of the MFMA.
29. Effective steps were not taken to prevent irregular expenditure amounting to R8 321 529 as disclosed in note 37 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the disclosed irregular expenditure was caused by non-compliance with Supply Chain Management Regulations.
30. Effective steps were not taken to prevent fruitless and wasteful expenditure amounting to R62 441 as disclosed in note 36 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA.

### **Procurement and Contract Management**

31. Contracts were awarded to bidders based on points given for criteria that differed from those stipulated in the original invitation for bidding, in contravention of SCM regulations 21(b) and 28(1)(a) and the Preferential Procurement Regulations.
32. Some of the contracts were awarded to bidders based on functionality criteria that were not stipulated in the original invitation for bidding, in contravention of Preferential Procurement Regulation 4.
33. Bid documentation for procurement of the commodities designated for local content and production did not stipulate the minimum threshold for local production and content as required by Preferential Procurement Regulation 9(1).
34. The performance of some of the contractors or providers was not monitored on a monthly basis as required by section 116(2)(b) of the MFMA.

### Human Resource Management

35. I was unable to obtain sufficient appropriate audit evidence that senior managers signed performance agreements within the prescribed period as required by section 57(2)(a) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

### Consequence Management

36. Sufficient appropriate evidence could not be obtained to confirm that unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the Municipal Finance Management Act.
37. Sufficient appropriate evidence could not be obtained to confirm that the irregular expenditure incurred by the municipality was investigated to determine if any person is liable for the expenditure as required by section 32(2)(b) of the MFMA.

<h3>Other information</h3>
----------------------------

38. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report thereon and those selected key performance area presented in the annual performance report that have been specifically reported on in the auditor's report.
39. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
40. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected key performance area presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
41. I have not yet received the final annual report. When I do receive this information, if I conclude that there is a material misstatement therein, I am required to communicate the

matter to those charged with governance and request that the other information be corrected. If the other information is not corrected I may have to re-issue my auditor's report amended as appropriate.

#### Internal control deficiencies

42. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on compliance with legislation included in this report.
43. The leadership was not fully successful in monitoring the action plan to ensure that corrective actions were taken when required and within the required time frames. This resulted in similar previous financial year material findings re-occurring in the current financial year relating to non-compliance and the reported performance information.
44. The processes in place to ensure that reviews were performed before submission of the financial statements were not adequate as material errors were detected in the financial statements that were subsequently adjusted.
45. Officials, under leadership's guidance and supervision, continued to contravene laws and regulations governing procurement and supply chain management. Leadership has not timeously followed up or investigated these supply chain transgressions by officials as they were identified at the end of the financial year. The lack of appropriate action against officials has a material impact on the effectiveness and the stability of the control environment. Finance staff did not have knowledge of GRAP standards and as a result the municipality opted to use consultants to prepare the annual financial statements.
46. The internal controls in place in respect of property, plant and equipment and intangible assets were inadequate resulting in inappropriate accounting treatment in terms of the GRAP standards. Misstatements were inevitably identified on the financial statements and adjustments to the financial statements needed to be made for overall fair presentation.
47. Continuous monitoring and supervision were not undertaken to enable an assessment of the effectiveness of internal control over financial reporting regarding IT controls.

*Auditor General.*

Kimberley

29 November 2017



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*



## **Annexure – Auditor-general’s responsibility for the audit**

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected Key performance areas and on the municipality’s compliance with respect to the selected subject matters.

### **Financial statements**

2. In addition to my responsibility for the audit of the financial statements as described in the auditor’s report, I also:
  - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
  - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality’s internal control.
  - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer.
  - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the John Taolo Gaetsewe District Municipality ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor’s report. However, future events or conditions may cause a municipality to cease operating as a going concern.
  - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

### **Communication with those charged with governance**

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and where applicable, related safeguards.